MANITOBA DEVELOPMENT CORPORATION

Annual Report

March 2001

Manitoba

MANITOBA DEVELOPMENT CORPORATION

Financial Statements
March 31, 2001

Manitoba

MINISTER OF
INDUSTRY, TRADE AND MINES

WINNIPEG, MANITOBA, CANADA
R3C 0V8

His Honour
The Honourable Peter M. Liba, C.M.
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

Your Honour:

I am pleased to present the Annual Report for the Manitoba Development Corporation for the fiscal year ending March 31, 2001.

Respectfully submitted,

MaryAnn Mihychuk, P. Geo.
Minister

Manitoba

Industry, Trade and Mines
Manitoba Development Corporation
555-155 Carlton Street
Phone: 204-945-0141
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Winnipeg Manitoba, CANADA
R3C 3H8

June 25, 2001

Honourable MaryAnn Mihychuk
Minister of Industry, Trade and Mines
Room 358 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Mihychuk:

It is our pleasure to submit the Annual Report of the Manitoba Development Corporation for the fiscal year ended March 31, 2001, as required by Section 44 of the Development Corporation Act.

Respectfully submitted,

Hugh Eliasson
Chairperson

PRICEWATERHOUSECOOPERS

101-05840/

PricewaterhouseCoopers LLP
Chartered Accountants
One Lombard Place
Suite 2300
Winnipeg Manitoba
Canada R3B 0X6
Telephone +1 (204) 926 2400
Facsimile +1 (204) 944 1020

June 8, 2001

Auditors' Report

To the Directors of
Manitoba Development Corporation

We have audited the balance sheet of **Manitoba Development Corporation** as at March 31, 2001 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

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THE MANITOBA DEVELOPMENT CORPORATION
MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in conformity with the generally accepted accounting principles. The statements are examined by PricewaterhouseCoopers, Chartered Accountants, whose opinion is included herein.

To fulfil this responsibility, management maintains internal control systems to provide reasonable assurance that the accounts and records accurately reflect all transactions and that appropriate policies and procedures are established and respected.

PricewaterhouseCoopers have free access to the Board of Directors, with and without management present, to discuss the results of their audit and the quality of financial reporting to the Board.

James F. Kilgour, C.A.
General Manager

Jack Dalgliesh
Secretary-Treasurer

Manitoba Development Corporation

Balance Sheet

As at March 31, 2001

	2001 $	2000 $
Assets		
Current assets		
Cash	72,940	228,345
Term deposits - Province of Manitoba	3,777,142	3,173,840
Accounts receivable		
Province of Manitoba	-	380,744
Other	67,678	5,693
	3,917,760	3,788,622
Assets managed for the Province of Manitoba under Part II		
Cash on hand held in trust	316,700	858,324
Accounts receivable (note 2)	139,774	583,454
Loans receivable (note 3)	45,726,653	43,727,044
Equity investments (note 4)	686,000	2,504,014
	46,869,127	47,672,836
	50,786,887	51,461,458
Liabilities and Equity		
Current liabilities		
Accounts payable - Part I	199,694	222,531
Long-term liabilities		
Accrued pension liabilities	538,995	547,250
Funds provided by the Province of Manitoba under Part II	46,869,127	47,672,836
	47,607,816	48,442,617
Equity		
Share capital		
Authorized and issued 100 shares at $10 per share	1,000	1,000
Retained earnings	3,178,071	3,017,841
	3,179,071	3,018,841
	50,786,887	51,461,458

Approved by the Board of Directors

Director

Director

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Manitoba Development Corporation

Statement of Income and Retained Earnings

For the year ended March 31, 2001

	2001 $	2000 $
Income from Part I		
Interest	249,947	217,447
Cost recoveries	-	943
	249,947	218,390
Income from Part II		
Interest - loans receivable	2,416,594	2,693,912
Pro-rata share of partnership earnings (losses)	(2,397,432)	1,566,443
Recovery of Part II expenses from (repayment of Part II income to) the Province of Manitoba		
Increase (decrease) in allowance for loan forgiveness	(2,367,518)	1,832,855
Increase in allowance for doubtful accounts	3,726,678	24,490,038
Decrease in provision for decline in value of investments	(64,668)	-
	1,313,654	30,583,248
	1,563,601	30,801,638
Expenses under Part I		
Administration	48,673	62,338
Pension benefit costs	41,044	(8,127)
	89,717	54,211
Expenses under Part II		
Increase (decrease) in allowance for loan forgiveness	(2,367,518)	1,832,855
Increase in allowance for doubtful accounts	3,726,678	24,490,038
Decrease in provision for decline in value of investments	(64,668)	-
Repayment of Part II interest on loan receivable to the Province of Manitoba	2,416,594	2,693,912
Provision for repayment (recovery) of pro-rata share of partnership earnings (losses)	(2,397,432)	1,566,443
	1,313,654	30,583,248
	1,403,371	30,637,459
Net income for the year	160,230	164,179
Retained earnings - Beginning of year	3,017,841	2,853,662
Retained earnings - End of year	3,178,071	3,017,841

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Manitoba Development Corporation

Statement of Cash Flows

For the year ended March 31, 2001

	2001 $	2000 $
Provided by (used in) Part I activities		
Operating activities		
Net income for the year	94,286	164,179
Changes in operating assets and liabilities		
Accounts receivable		
Province of Manitoba	380,744	(231,028)
Other	3,959	(5,693)
Accounts payable	(22,837)	(5,083)
Accrued pension liabilities	(8,255)	(56,606)
	447,897	(134,231)
Investing activity		
Loan principal repayments	-	276,094
Net cash flow from Part I activities, carried forward	447,897	141,863

Manitoba Development Corporation

Statement of Cash Flows ...*continued*

For the year ended March 31, 2001

	2001 $	2000 $
Net cash flow from Part I activities, brought forward	447,897	141,863
Provided by (used in) Part II activities		
Loans receivable		
Principal repayments	4,864,960	9,216,966
Loans issued	(7,499,324)	(17,843,065)
Increase in accrued interest receivable	(724,405)	(736,386)
	(3,358,769)	(9,362,485)
Equity investments		
Investments made	(526,945)	(68,750)
Redemptions	12,195	163,853
	(514,750)	95,103
	(3,873,519)	(9,267,382)
Decrease in cash on hand held in trust	541,624	1,268,246
Decrease (increase) in accounts receivable	443,680	(485,628)
Funds provided by the Province of Manitoba	2,888,215	8,484,764
Net cash flow from Part II activities	-	-
Net increase in cash balance during the year	447,897	141,863
Cash balance - Beginning of year	3,402,185	3,260,322
Cash balance - End of year	3,850,082	3,402,185
Cash balance consists of the following		
Cash on hand	72,940	228,345
Term deposits - Province of Manitoba	3,777,142	3,173,840
	3,850,082	3,402,185

1 Significant accounting policies

Nature of operations and economic dependence

The Manitoba Development Corporation (the Corporation) provides loans and guarantees under Part I and Part II of the Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba. The Corporation's lending operations under Part I were suspended effective November 15, 1977 except at the direction of the Province of Manitoba.

Equity investments under Part II

The Corporation's equity investments related to share capital investments are recorded at cost. The Corporation's investments in the Vision Capital Fund, the Manitoba Capital Fund and the Manitoba Science and Technology Fund are accounted for using the equity method of accounting. These investments were originally recorded at cost and the carrying value is adjusted thereafter to include the Corporation's pro rata share of post acquisition earnings for these investments. Such adjustments are correspondingly reflected in the balance sheet caption "Funds provided by the Province of Manitoba under Part II."

Pension Plan

Past employees of the Corporation were not members of the Civil Service of the Province of Manitoba but they contributed to, and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributes 50% of the pension paid to retired employees. The current pension expense is determined on the basis of an actuarial valuation. Payments to pensioners are charged against the liability account.

Operating losses

Losses under Part I and under Part II of the Corporation are the responsibility of the Province and are charged directly against advances received from the Province.

Cash

For the purpose of the statement of cash flows, cash includes cash and term deposits with the Province of Manitoba with maturities of up to three months.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

2 Accounts receivable managed for the Province of Manitoba under Part II

The accounts receivable represent balances outstanding for interest, capital repayments or fees incurred by the Corporation on behalf of the following programs:

	2001 $	2000 $
Manitoba Industrial Opportunities Program	-	450,000
Manitoba Capital Fund	139,774	133,454
	139,774	583,454

3 Loans receivable managed for the Province of Manitoba under Part II

	2001 $	2000 $
Business support		
Manitoba Industrial Opportunities Program	69,643,010	70,533,704
Manufacturing Adaptation Program	58,344	152,083
Canada - Manitoba Economic Development Partnership	221,680	1,665,811
	69,923,034	72,351,598
Other loans receivable		
Canada/Manitoba Tourism Agreement	81,692	91,858
Vision Capital Fund	26,179,844	25,771,192
Crocus Foods (1996) Limited	370,337	376,990
Manitoba Film and Sound	184,937	400,000
Related to sale of Linnet Geomatics International Inc.	257,024	296,461
	27,073,834	26,936,501
	96,996,868	99,288,099
Less: Allowance for forgiveness	10,845,973	13,213,491
Allowance for doubtful accounts	40,424,242	42,347,564
	51,270,215	55,561,055
	45,726,653	43,727,044

The Vision Capital Fund loans receivable accrue interest at rates of 5% - 10.25% per annum and are secured by a debenture on all assets of the Fund. The interest accumulates in the Fund and is payable along with any outstanding loan advances on December 31, 2001.

4 Equity investments managed for the Province of Manitoba under Part II

	2001 $	2000 $
Share capital investments		
Class M preferred shares of A. E. McKenzie Co. Ltd.	2	54
Common shares of Crocus Foods (1996) Limited	75	75
Class C preferred shares of C.A.R.E. Corp.	477,170	684,270
	477,247	684,399
Less: Allowance for forgiveness of shares	(477,247)	(684,399)
	-	-
Limited Partnership Investments		
Vision Capital Fund	801,326	813,521
Manitoba Capital Fund	4,363,200	4,363,200
Manitoba Science and Technology Fund	595,695	68,750
	5,760,221	5,245,471
Less: Provision for decline in value of investments	4,567,990	4,632,658
Pro-rata share of partnership earnings	506,231	(1,891,201)
	5,074,221	2,741,457
	686,000	2,504,014

On December 20, 1994, the Province of Manitoba entered into an agreement to sell the assets of A. E. McKenzie Co. Ltd. As part of the sale, the Corporation purchased 102 Class M preferred shares of the purchaser for $102, redeemable prior to December 31, 2001. During the year, the Corporation redeemed 52 of the Class M shares at the request of A. E. McKenzie Co. Ltd. for proceeds of nil. An allowance for forgiveness for the full amount of the shares had previously been recognized.

On November 1, 1996 the Corporation incorporated a new subsidiary company, Crocus Foods (1996) Limited (Crocus), to acquire 100% of the assets of Crocus Foods Ltd., a fresh vegetable processing plant in Southport, Manitoba that was petitioned into bankruptcy by its previous owners. The purpose of this acquisition was to ensure the plant did not close and that jobs were maintained. Total share capital of Crocus consists of 100 common shares with a total paid up capital of $100. On June 1, 1997, the Corporation agreed to transfer up to 75 shares of Crocus to the management of Crocus, subject to certain terms and conditions. Subsequently, the Corporation transferred 25 common shares of Crocus to management under the terms of this agreement. Crocus has been accounted for as a temporary investment instead of on a fully consolidated basis.

The Corporation holds 477,170 (2000 - 684,270) Class C non-voting preferred shares of C.A.R.E. Corp. The preferred shares are cancellable on an annual basis at the rate of $10,000 for every job held at C.A.R.E. Corp., commencing February 1999. During the year, the Corporation cancelled 207,100 of these shares (2000 - 115,730). Consistent with the treatment of other similar share capital investments managed for the Province of Manitoba under Part II, an allowance for forgiveness of shares has been taken to fully provide for the amount of the investment at the time of acquisition.

5 Contingent liability and commitments

During the 1999/2000 fiscal year the Corporation guaranteed a bank loan in the amount of $500,000 in regard to one of the Manitoba Industrial Opportunities Program investments. As at March 31, 2001, the bank loan outstanding against the guarantee totalled $40,291.

Commitments and undisbursed balances of approved loans under Part II

	2001 $	2000 $
Manitoba Industrial Opportunities Program	13,839,800	17,396,845
Canada - Manitoba Economic Development Partnership	278,320	1,734,189
Manitoba Science & Technology Fund	1,897,305	2,425,250
Renaissance Fund	3,000,000	3,000,000
Vision Capital Fund	2,681,013	2,681,013
Manitoba Capital Fund	636,800	636,800
	22,333,238	27,874,097

6 Financial instruments

The carrying amounts of short-term financial assets and liabilities are a reasonable estimate of the fair value because of the short maturity of those instruments.

The financial risk is the risk to the Corporation's Part I earnings that arise from fluctuations in interest rates and the degree of volatility of these rates. Because Part II activities are directed by the Province of Manitoba, any exposure for these financial assets and liabilities to interest rate fluctuations or changes to their fair value would be borne by the Province. Credit risk relating to the realization of assets managed for the Province of Manitoba under Part II is borne by the Province.